#16

McAULEY INSTITUTE

March 30, 1999

Office of the Fiscal Assistant Secretary
US Department of Treasury, Room 2112
1500 Pennsylvania Avenue, NW
Washington DC 20220

To Whom it May Concern:

McAuley Institute is the nation's only nonprofit housing organization with an intentional focus on improving the housing conditions, communities, and lives of women and children. As such, we support any initiative that empowers local residents and strengthens communities. As Executive Director of McAuley Institute and on behalf of the National Community Reinvestment Coalition (NCRC), the nation's CRA trade association of more than 690 community reinvestment organizations, I am writing to strongly oppose any involvement of check cashers, pawn shops, and other non-federally insured institutions in the EFT (Electronic Funds Transfer) program. This includes so-called voluntary accounts outside of the ETA (Electronic Transfer Account) option.

As NCRC commented previously, EFT could benefit working class and minority individuals and communities if it encourages a number of "unbanked" individuals to establish accounts with banks or thrifts. These business relationships could lead to more home and small business lending in traditionally underserved communities. However, if check cashers and other non-federally insured institutions participate in the EFT program, McAuley believes that the "unbanked" population receiving EFT will be pushed further away from mainstream financial institutions. Many members of the "unbanked" population will be subject to usurious interest rates and fees of check cashers and pay day lenders that range from 50 to 500 percent . The Treasury Department, in its request for comments, documents that existing arrangements between banks and "third party payment providers" include a $4 enrollment fee, a $5.50 monthly maintenance fee, and a $1 fee for each withdrawal or balance inquiry. This more than three times the monthly fee of $3 proposed by Treasury for the basic ETA account to be offered by banks and thrifts.

An EFT system allowing fringe bankers will result in a wealth-drain from underserved communities. The small savings that members of the unbanked population have been able to accumulate will be sucked away by the unsavory practices of pay day lenders, check cashers, and other predatory actors in the fringe banking world. This would eat away at the progress in reinvestment policies stimulated by CRA and the nation's fair lending laws.

164

BUILDING HOUSING • STRENGTHENING COMMUNITIES

8300 COLESVILLE ROAD, SUITE 310 • SILVER SPRING, MD 20910 • (301) 588-8110 • FAX (301) 588-8154

Fringe bankers do not need the federal government's help in grabbing market share in minority and working class communities. Several studies have documented that check cashers already dominate in minority neighborhoods. For example, Greg Squires and Sally O' Connor of the University of Wisconsin find that banks outnumber check cashers 15 to 1 in white neighborhoods in Milwaukee. In contrast, there was one bank for every check casher in African-American neighborhoods. Breaking down the data further by income and race reveals even more glaring disparities. The Woodstock Institute found that check cashers outnumber banks by ratios higher than 10 to 1 in lower-income minority communities in Chicago.

The Treasury Department should be employing every policy tool at its disposal to reverse this higher market presence of check cashing outlets. If Treasury provides non-federally insured institutions with access to a captive market of millions of unbanked recipients of federal benefits and wages, the market penetration of check cashers in underserved neighborhoods will truly dwarf that of banks and thrifts. In contrast, if Treasury restricts EFT to federally-insured institutions, banks and thrifts can begin to regain market share in traditionally underserved neighborhoods.

Unscrupulous and exploitative practices of pay day lenders, pawn shops, check cashers, subprime lenders, and other non-federally insured lenders have been increased significantly in the last few years. Restricting EFT access to banks and thrifts would help curb the excesses of fringe bankers by encouraging banks and thrifts to increase their presence in working class and minority neighborhoods. If the Treasury Department wishes to support the reinvestment stimulated by CRA and the fair lending laws, it needs to prohibit non-federally insured institutions from participating in the EFT system.

Thank you for considering the views of McAuley Institute and the low-income communities we serve.

Sincerely,

JoAnn Kane
Executive Director